

The MORTGAGE BANKER

VOL. III—NO. 3



FEBRUARY 1, 1941

How Should Mortgage Firms Supervise ^{JAN 28 1941} the Construction of a Building?

Here's the method one mortgage banker uses in checking the progress of the building and in disbursing the money

By L. A. McLEAN

HOW much supervision should a mortgage company give to the construction of a building?

We do not give a commitment nor do we make a construction loan unless we have been furnished with complete drawings and specifications, and they must be complete enough so we know the quality of all materials going into the construction. Unless the arrangement of rooms is good, the dimensions proper, the wall space and location of openings permit sensible furnishing and the appearance and size of the structure are in keeping with the neighborhood, we stop right there. During the depression years we involuntarily acquired our share of properties. When the time came to market them, it seemed that no matter how well the house had been built, an undesirable arrangement created tremendous sales resistance, necessitating the expenditure of too much money to remodel. If the arrangement is acceptable or can be made so, we check the specifications, require such changes as seem important, arrive at a valuation and decide what we will lend on the completed structure.

Some individuals and contractors prefer to receive a commitment for the amount, rate and term of the loan that will be granted upon completion of the

construction in accordance with the plans and specifications. They arrange for short-term credit against the commitments at their own banks. We give no

"WE never undertake supervision for the owner," Mr. McLean writes. "It should be only for the mortgage company and performed in such a manner that future relations with good contractors will not be impaired." The broad general factors involved in making construction loans have been treated in previous articles. Here the author details the methods he uses in handling this type of financing. Mr. McLean was president of MBA in 1935-1936.

commitment of any kind unless the borrower executes a contract to accept the loan or pay the amount set out in the contract as payment in full for the accommodation and services.

Should the borrower desire a construction loan, in arriving at the amount we take into consideration the cost of the

ground and improvements, then the probable market value of the property and after that the financial ability of the borrower, whether an individual or contractor. If the latter we consider his reputation as a builder. We must feel sure that he can finance the difference between the cost and the funds made available by the loan. Should we have a conditional commitment from the FHA, we advance as a construction loan, no more than we would lend as an uninsured loan. Were the sound value \$9,000, though the FHA commitment would be for \$7,800 on a 90 percent-80 percent basis, conditional as it is, we would advance no more than \$6,000, if everything were favorable.

In Kentucky, we are blessed with fair lien laws. All liens take the rank in which they are filed. Liens for labor or material take priority over nothing except any undisbursed proceeds of the mortgage loan and the liens filed after them. We make sure our mortgage is the first lien.

In connection with construction loans on ordinary dwellings, we do not require a completion bond. Therefore, in disbursing money we work backwards—always endeavoring to have enough undisbursed funds to pick up the construction at any point and complete it. Should a lien for material or labor be filed, we immediately charge the loan account with the amount of the claim and credit the claimant. We do not however pay any such claim until the debtor and creditor arrive at a settlement.

It is our practice to make the *first inspection* when the foundation has been completed. A dwelling is no better than its basic foundations. The contractor should take into consideration the nature of the soil and subsoil, the topography and the possible presence of underground springs or drainage from higher ground. We require waterproofing and installation of tile lines if there is any evidence of water. The second inspection is made after the exterior wall sheathing and roof sheathing has been finished, the stud partition walls are up, the sub-flooring laid, and the heating, plumbing and electrical work roughed-in. This is the stage at which we make our *first disbursement*, which follows a careful inspection for the closing-in work then starts. Any deviation from the approved plans and specifications can then be detected. The inspector should carefully check the finished foundation, termite shields, plates, floor joists, girders, exterior studding and sheathing, roof rafters and sheathing, partition framing, sub-floors, and the roughed-in electrical, plumbing and heating work. The work done up to this state determines the strength of the entire structure and whether the upkeep and repair expense in future years will be within reason.

Next Inspection

The next inspection should be made when the plasterers have completed their work and the trimmers are far enough along to give the inspector a chance to make sure the specified number and thicknesses of rough and finished coats have been used and to check the type of millwork and method of installation. The finished roof should have been put on, the exterior wall completed, the trim work under way, plaster finished, and work should be started setting the tile or laying linoleum in the baths and lavatories. At this stage we make our *second disbursement*.

The next inspection and disbursement is made when the construction work has been about four-fifths completed. This should show the finished trim work, completed baths, plumbing, heating and electrical work.

The last inspection is made to check the finished floors, exterior and interior paint and decorating, kitchen installations, weatherstrips, screens, gutters and down spouts, the garage, sewerage, grading, walks, driveway and the finished sodding and planting. Final disbursement follows.

We never undertake supervision for the owner. It should be only for the mortgage company and performed in such a manner that future relations with good contractors will not be impaired. Necessary requirements as to corrective construction details should be ironed out with the contractor. To report to the owner unnecessarily would be suicidal. Where the owner employs an able architect to plan and supervise the construction, it is possible to relax somewhat, but the inspections are always necessary.

For those contractors who do not know how to prepare complete specifications, we provide free a form ready to be filled in as to detail.

What is the estimate of cost to pay out a construction loan?

I haven't an accurate answer for that question. We have never made construction loans except for the purpose of

"WE have never made construction loans except for the purpose of creating and getting control of the permanent financing. Some mortgage lenders charge one percent of the amount of the loan to include all expenses; and if their loans are largely in the higher brackets, they enjoy some profit from this type of financing. That was formerly our custom; but when our strong competitors began to cut the costs, in an effort to provide a uniform service we were compelled to adopt the plan described here."

L. A. McLEAN

creating and getting control of the permanent financing. Because of competitive conditions there is very little chance of making any profit on a construction loan even though it is the more hazardous of the two financing steps. In Louisville, the expense we would have to incur in connection with a construction loan, regardless of the amount, would be title report \$15, survey \$10, recording fee \$2.50, or a total of \$27.50. This does not include the cost of preparing the papers and the attorney's services for closing. Our charge to the borrower is \$10 to cover the closing expense and \$10 for each disbursement. As we make four disbursements on the average construction loan, the total charge amounts to \$50. On such a loan we would have available \$22.50 to defray the expense of drawing the papers, closing the loan, making at least four intensive inspec-

tions and reports and the cost of book-keeping. We would lose money on that basis if it were not for the fact that we use the title report and the survey in connection with the permanent loan.

It has been impossible to break down the cost involved in a construction loan to a fine point, but we have always felt that the charge of \$10 for closing and \$10 per disbursement just about permits us to break even on the average construction loan.

Some mortgage lenders charge one percent of the amount of the loan to include all expenses; and if their loans are largely in the higher brackets, they enjoy some profit from this type of financing. That was formerly our custom; but when our strong competitors began to cut the costs, in an effort to provide a uniform service, we were compelled to adopt the plan here described.

Some population data significant as to direction of future real estate activity: At the present time 42 percent of this nation's families have incomes of less than \$1,000 a year. They constitute fifty million people. Three percent of the population have incomes of \$5,000 or more per year.

In 1880, gainful workers comprised 30 percent of the total population; in 1930 they were 38 percent. Today they stand at 43 percent of the total population—a change of 5 percent in ten years. However, part of the gainful workers, those we call "wage earners" in the factories, have remained comparatively static. They have constituted about 54 percent of all those employed. Clerks, salesmen, etc., have risen in these years from 6 percent to 18 percent of all gainful workers. Self-employers have declined 50 percent.—Robert H. Armstrong, New York real estate man.

More than 400 million dollars is spent each year in keeping skyscrapers functioning at maximum efficiency—and based on present values, they represent an investment of six and one-half billion dollars, reports the National Association of Building Owners and Managers.

There are more than 6,000,000 office building tenants in this country. There are 350,000,000 square feet of rental premises in the United States, a figure which provides an idea of the magnitude of the office building industry.

The direct operating expense for the 5,500 buildings which house the nation's office workers is \$187,950,000; of this, the pay roll approximates \$120,000,000, or just about 65 percent.

Newspaper Advertising Can Produce Results for Mortgage Houses

An account of how it has done an effective job in good public relations for one mortgage firm

By STEPHEN G. COHN

AT mortgage conventions, I've heard speakers analyze the part that advertising—and particularly newspaper advertising—can be made to play in securing new mortgage business. Invariably, the speaker's conclusion has been a doleful one: advertising is a waste of money; advertising does not pay; advertising is just not adaptable to the mortgage business. I have never heard one assume that the lack of results may have been due to bad planning on his part. The fault always seems to be with advertising in general.

As I listened, I've often wondered whether the great industrial leaders of the nation are all wrong, whether General Motors and Chrysler and Ford are throwing their money away; whether Westinghouse would sell as many refrigerators, General Electric as many appliances, or Crane as much plumbing if the public were not being constantly reminded of their names and products.

If advertising has worked successfully for so many industries, why can't the basic principles underlying their merchandising strategy be adaptable in some measure to our own problem of merchandising mortgage money?

The answer is that it can . . . and is . . . being used profitably in the mortgage business today.

I think if you would take, for example, the half dozen most active mortgage companies in Chicago last year, you would find that a majority of them not only advertise and publicize their activities as extensively as they can, but they're constantly making efforts to increase this publicity and advertising as their volume of business increases. Disregarding hackneyed and old-fashioned copy, these companies all use different types of approach. They are alike only in constantly striving to keep their names before the public.

As these observations are largely confined to newspapers as a medium for getting new mortgage business, I'd like to describe a survey our firm made

THE author is associated with Dovenmuehle, Inc., of Chicago which, during recent years, has been a rather consistent user of newspaper space. Advertising in newspapers has proved profitable for them and Mr. Cohn describes here the reasoning behind their advertising, how they plan it, the sort of copy they use, what they set out to accomplish and how effective it has been. This is a study in good public relations—a report of a program that has clicked.

early in 1939. Through it we tried to find out where our home-loan business was coming from as a guide to making advertising appropriations for the coming year. At that time we were relying very largely on advertising as a means of contacting the general public. During the years of growth from 1932 to 1938, we had employed no solicitors.

Instead of consulting our own records for this information, we went directly to those borrowers who had made loans with us during the two preceding years. From a list of their names, we eliminated all subdivisions where we knew borrowers had come in because of a particular contractor. We also eliminated all known friends of the officials of the firm. We had left for canvassing about 1,000 names.

These were divided so as to give us a complete cross-section of conservative loans and full loans, big houses and small ones, wealthy and modest borrowers. Our purpose was to find out which kind of advertising would be most effective

for bringing in a certain type of home owner, should a specific occasion ever arise for contacting that particular type.

Our reply cards, although they came back to us unsigned, were so keyed that we could tell at a glance to just which group each sender belonged. We asked each man frankly just what it was that brought him into our office. We sent along for his convenience a questionnaire specifying each type of advertising we used, as well as each type of personal contact that might have been involved (such as architect, contractor, realtor, banker or lawyer). Out of approximately 1,000 names, we received 689 replies.

We had to throw out four of the replies because the senders informed us that the men who had referred them to our office must have been inmates of insane asylums. With these four replies out, we had 685 left for compilation. (See accompanying table on page 4.)

To purposely conceal the item of "Publicity," (we didn't want borrowers to know that the many nice things they had read about us in the newspapers were prepared in our own office!) we chose the vague classification of "General Reputation."

Of course, we cannot be sure that the large percentage of people who told us they first came in because of our "general reputation" were influenced solely by newspaper publicity, but as we had detailed every other form of advertising and asked them to be equally specific in replying, we feel reasonably sure that these people to whom we were otherwise a stranger, learned of this "reputation" through publicity stories they had read.

We grouped together those items shown as "Newspaper-Display-Ads" and "General Reputation." You will observe that exactly 25 percent of our total business for those years, we have attributed to newspaper-approach.

On the other hand, we cannot say how much our solicitors have been helped by the fact that the people they interviewed were already acquainted with the name and nature of our business. However, this I know from my own experience: In those "wonderful days before 1929,"

when our company's name was never in the paper and everyone else's was in a great deal, I was out on the street trying to sell mortgages and solicit loans. When I would send my card in to someone whom I could often see silhouetted behind the frosted glass partition of his private office, word would come back frequently that he was not in.

Today, if I happen to go into an office, the girl at the information desk doesn't even ask me how to spell our firm name. So I think our solicitors of today are receiving an intangible, but a real benefit from the time and money that have been spent in advertising and publicizing our firm name.

Papers the Backbone

We'll probably never know how many of the loans that this survey showed were referred to us by architects, contractors and lawyers really came in because these men had read in the paper that we had made a similar loan for someone else.

But there is one positive conclusion we can draw: the newspaper, builder of reputations with the general public, should be the backbone of any advertising campaign designed to bring new business to your firm.

Having a good name with the general public is one of the greatest merchandising assets that your business can own. It is an asset that no one can hire away from you—it belongs to you alone.

Briefly, there are three ways in which the facilities of a newspaper can be utilized by you for getting new business: Display advertising, classified advertising and publicity.

If you plan to use display, there is a certain definite routine you should follow. First, you should decide how much money you have to spend; then you should plan carefully to be sure that your money is spent in the most efficient way. It is easy to waste money in advertising, for example, through bad timing; that is, trying to buck unfavorable market conditions.

The next thing for you to determine is in what type of campaign your money will work most effectively. We are great believers in the old theory that "Repetition Makes Reputation"—that is, we try to stretch our money as far as it will go. We would rather run ten small advertisements than one ten times as big.

Every real estate man should realize in connection with his advertising that no advertisement is really good unless it is

conspicuous. By this, I don't mean that it must necessarily be large, but it must attract attention. It is entirely possible for a small two-inch advertisement on a single column to be so conspicuous that it completely offsets a quarter-page advertisement adjoining it and takes the play away from it.

One of the easiest ways to make a display advertisement conspicuous is to keep it simple. So many people have the idea that they have to crowd in a lot of words because they are paying a lot of money for space. This is one of the surest ways to muddle up an advertisement's normal effectiveness. Our own display advertising from the beginning has been based on the fact that we have had only one thing to sell: mortgage money. We have tried to keep our dis-

THIS article is based upon an address which the author originally made at a Mortgage Clinic conducted by Irvin Jacobs of Chicago devoted to "New Business for Members Residing in Cities of More than 200,000 Population." Mr. Cohn doesn't mention here his firm's newest advertising venture—a painted sign 15 stories high and probably the BIGGEST single piece of promotion ever undertaken by a mortgage house.

play copy plain and brief and the general appearance and make-up of the advertisements hard-hitting. We have repeated these small, but attention-getting advertisements as often as possible—and this system has brought very satisfactory results.

Frankly, I don't know much about classified advertising, but the classified salesman always stresses the fact that his columns constitute a ready market—that while display advertising must seek the reader, in classified the reader seeks the advertising. Classified, he says, does not have to create a desire: the desire already exists and the only problem remaining is one of selection.

We try to direct our advertising to the entire market rather than to just a few immediate prospects. We feel that the mortgage business is a long-range business, in which it is better to spend your money building up a general reputation than it is to shoot for a few quick deals.

The third and one of the most effective ways in which you can reach the newspaper-reading public is through the news columns. People are definitely impressed by articles they read as news. If the news which is printed about your firm is favorable, this impression is bound to be a good one.

The real estate editors of the various papers are all regular fellows, who have a job to do. I think it would be very much to your interest to try to know them and work with them. If they want information from you, help them and don't try to hinder them.

Remember that they are paid for getting facts, and they too have to make a living. If they ask you about a business transaction that, for one reason or another, you would rather not have appear in print, talk to them frankly and tell them why. Hollywood to the contrary notwithstanding, I have never yet known a newspaper man who violated a business confidence.

(Continued on page 7, column 2)

New Business Brought In By	Conservative loans (Non-FHA) Construction and Refinancing	FHA Refinancing Loans	FHA Construction Loans	Averages Based on Total Business
	7.9%	7.2%	7.7%	7.8%
Ads: Newspaper—Display	7.9	7.2	7.7	7.8
Community Magazines	2.4	1.7	—	1.7
Direct Mail	15.3	3.4	1.5	8.9
Billboards	.3	1.7	2.9	1.2
General Reputation	17.0	20.2	12.8	17.2
Solicitors	5.0	1.2	4.4	3.7
Referred by: Architect	3.7	5.8	9.4	5.5
Contractor	7.7	20.4	29.5	15.9
R. E. Broker	2.4	10.6	2.2	4.8
Banker	8.2	6.2	11.7	8.3
Lawyer	6.6	3.8	2.9	5.0
Competitor	1.2	.9	1.5	1.1
Miscellaneous	5.7	5.6	.7	4.7
Present Mortgagors of Firm	10.1	10.8	11.3	10.6
Personal Friends of Firm—Executives	6.5	.5	1.5	3.6

(NOTE: In connection with the above figures, it should be explained that both personal-solicitation and billboards were used only during the last few months of the lending period analyzed above.)

What Mortgage Men Should Know about Fire Insurance

*Do you know all the conditions
and circumstances under which
fire insurance becomes void?*

By McCUNE GILL

OCCASIONALLY it is found that fire insurance policies, intended to protect mortgagees and owners of real estate, are void, and the insurance company can deny liability even though all premiums have been paid. Some policies are void from the beginning because of errors and omissions in writing the policy. Others become void later because of subsequent transactions.

A discussion of the principles that make possible a denial of liability, after a loss, should be of interest to mortgage bankers, who have both real estate securities and real estate itself under their control.

UNCONDITIONAL AND SOLE OWNERSHIP: If the ownership or interest of the property owner is not "truly stated" in a fire, windstorm, or other insurance policy, or if the assured is not the "unconditional and sole owner" of the property, the policy is void. Thus, if the husband is the assured named in the policy and title is in the name of husband and wife, the policy is void. The same is true where the assured is the wife and the owner is the husband, or where the assured is only a life tenant, as for example, owner of homestead and dower. It is likewise true where the assured is a strawman, or trustee for a syndicate of owners or where the assured had previously given a contract of sale or even where the assured is only the holder of a contract to purchase and this fact is not disclosed in the policy. It is also true where the assured is only a lessee, and this fact is not mentioned.

In all of these cases the insurance policy is void. These rulings indicate the necessity of accuracy and completeness in writing policies.

CHANGE OF TITLE: If the title of the assured changes after a fire or tornado policy is written, the policy becomes void and unenforceable as to the owner of the property, unless the in-

surance company is notified and consents to the change in title. This applies to any sale or conveyance of the property, or of any undivided interest. It applies,

IN this article you'll discover many sets of circumstances under which fire insurance becomes anything BUT insurance. Particular emphasis is laid upon the mortgage lender's role in fire insuring—the protection he must have and how he often doesn't get it. This article can be used, we believe, as a sort of manual of things the mortgage man should know about fire insurance. Many of the points covered are those with which you are already familiar. But a greater number cover factors which have probably confused you in the past. Recently Mr. Gill wrote a book, "Is Your Fire Insurance Void?" We asked him to rewrite it in condensed form and slanted directly at the mortgage lender. This article is the result. The author is vice president of the Title Insurance Corporation of St. Louis and a member of MBA's Board of Governors. He has frequently contributed to *The Mortgage Banker*.

too, to a foreclosure of a deed of trust, or mortgage, or partition by deed or by suit, and other legal process or judgment. Reconveyance to the assured does not reinstate the policy.

DEATH OF OWNER: Policies usually provide that a change of title because of the death of the owner does not invalidate a fire or tornado policy. However, it is best to have the policy assigned

to the heirs or devisees, and to include the administrator or executor, as their interest may appear.

CONTRACT TO CHANGE TITLE: It has been held in many States that a contract of sale or an earnest money receipt, (where the parties are not held covered by the fire insurance company), renders a fire or tornado policy void as to the owner of the property, and as to a mortgagee with knowledge of the contract.

RISK OF LOSS: The risk of loss by fire, tornado or other hazard, during a contract of sale (even without delivery of possession), is usually held to be on the purchaser. He can be compelled to accept the property even though damaged or destroyed, unless otherwise provided in the contract. When a policy becomes void because of change or contract to change title, without the consent of the insurance company, it is void as to the assured (seller) and the purchaser, and the mortgagee with notice.

KNOWLEDGE OF AGENT: It is sometimes held that knowledge by an insurance agent of an error in the designation of the assured, or of a change or proposed change in title, will be binding on the company, and the policy will continue to be valid. However, it is advisable to be accurate as to the recitals in the policy, and obtain written consent to changes, rather than rely on the supposed knowledge of the insurance agent.

DESCRIPTION OF PROPERTY: If the property is incorrectly described, a fire or tornado policy is void. These descriptions are usually quite vague and hence dangerous. It is preferable to insert a full legal description of the real estate on which the improvements are located, as well as a description of the buildings. Moving of personal property makes insurance on it void.

VACANCY AND USE: Fire insurance becomes void if the owner or tenant vacates the house for more than a certain number of days without a vacancy permit by the insurance agent (unless a rider permits a greater delay). The policy also becomes void as to the owner or the mortgagee with notice upon more hazardous occupation of the property.

REPAIRS: Making repairs on a building, without the consent of the fire insurance company, invalidates the insurance if mechanics are employed for more than a certain number of days. Permission to repair should be obtained in all cases exceeding the stated period.

BUILDERS RISK CLAUSE: Where a building is being constructed, a builders risk clause or permission to construct must be attached. This protects the builder and owner during construction and covers the building, building materials and tools, unless there is a rider on the policy covering this risk.

EXPLOSION AND LIGHTNING: A fire insurance policy does not ordinarily protect against explosion (not preceded by fire) or lightning unless a rider so states. *This applies to the mortgagee as well as to the owner.*

DESTRUCTION OF BUILDING: If the building "falls" before the fire, the insurance is void under the provision of most policies except as provided in a "bridge the gap" clause which gives protection where a building is blown down and then burns.

CANCELLATION: Either the insurer (on a stated notice) or the insured, can cancel the insurance at any time. But the policy usually continues in force in favor of the mortgagee for a stated number of days after notice. *In such cases the mortgage banker servicing the loan must usually order new insurance or be liable for negligence.*

MORTGAGEE: The mortgagee has an insurable interest separate from that of the property owner. The mortgagee's interest can be protected either by a separate policy running to him or by a mortgage clause or rider attached to the owner's policy.

MORTGAGE CLAUSES: A mortgage clause or rider on the owner's policy may be in two forms, (1) the "open" clause, and (2) the "standard" or "union" clause. If the only wording is "loss payable to the mortgagee" or if it is "subject to all the terms and conditions of the policy," it is an open clause. But if other clauses are added indicating that the mortgagee is not to be subject to the acts of the mortgagor, it is a standard clause.

EFFECT OF OPEN MORTGAGE CLAUSE: The effect of an open clause is that the mortgagee's right to collect can be forfeited by the acts of the property owner. These include the willful burning of the house, a conveyance of the property without the consent of the insurance agent, or the commencement or completion of a foreclosure.

EFFECT OF STANDARD MORTGAGE CLAUSE: Under the standard or union clause the mortgagee's rights are not subject to the hazard of the unknown acts of the property owner. But under the standard clause if the mortgagee or his agent has knowledge of the state of the ownership or of a change of ownership or occupancy, or an increase of hazard, his coverage will be void if he does not notify the insurance company. *This imposes an additional burden on the mortgage banker in servicing loans.*

NAME OF MORTGAGEE OR TRUSTEE: The name of the mortgagee, or the trustee in a deed of trust, must be in the mortgage clause. A mortgage clause in favor of a strawman as mortgagee, is usually held to be void.

ASSIGNMENT OF MORTGAGE: If a mortgage clause is in favor of the mortgagee and is assigned without the consent of the insurance agent, the policy is void. But if it is in favor of the mortgagee "or his assigns" the policy is valid even after assignment. If the mortgage clause is in favor of the trustee in a deed of trust, the assignment of the notes and mortgage is usually held not to invalidate the policy. If the assignment of the mortgage is only as collateral security the policy is sometimes held valid even though the consent of the insurance company was not obtained.

CONTRIBUTION: Contribution is the obligation of a mortgagee to accept a reduced amount of loss payment if the owner carried insurance other than the policy to which the mortgage clause was attached, the amount of payment being the proportion of the policy to the total insurance. Contribution applies even though the mortgagee does not know of the other insurance, unless the contribution clause provides that it applies only if other insurance is consented to by the mortgagee. *Mortgage bankers should not accept "with contribution" mortgage clauses.*

COINSURANCE: Coinsurance is the obligation of an owner or mortgagee to accept a reduced amount of loss payment if the amount of insurance carried was less than a certain percentage of the value of the property to be determined at the time of loss. A coinsurance clause results in a lower premium for the owner but a greater risk for the mortgagee.

SUBROGATION: If the mortgage rider contains a subrogation clause and the insurance company pays the mortgagee, the insurance company is subrogated, or becomes entitled, to the lien of the mortgage and can enforce it

against the owner of the property if the policy is void as to such owner. *This places a distinct duty on the servicing agent to obtain transfer consents.*

RIGHT TO PLACE INSURANCE: A clause in a deed of trust giving the trustee or mortgagee the exclusive right to place fire or tornado insurance, and collect commissions therefor has been held valid in some States.

ERROR AND OMISSION INSURANCE: A policy can be obtained insuring a mortgage banker against loss because of errors in the policy (such as an error as to the assured, or location of property), and because of omissions (such as failure to attach a mortgage clause or failure to renew a policy). Many mortgage bankers carry this blanket protection against their own errors.

SUGGESTIONS TO MORTGAGE BANKERS: In view of the above principles governing fire and other insurance policies, it is suggested that mortgage bankers establish in their offices a routine of supervision so that fire, tornado and other insurance accepted by them, will be checked to determine the validity of the policies when written, and not allowed to become void because of subsequent transactions. It is suggested that the following be adopted as a minimum protective routine:

(1) Ascertain that the policies provide sufficient insurance coverage both in amount and in kind. For example, tornado, lightning and explosion coverage should be to the full value of the improvements, with "bridge-the-gap" clauses. If the building is in course of construction, builders risk, public liability and malicious damage coverage should be provided. Rental, sprinkler, gasoline and alteration clauses should be obtained where necessary. Liability insurance in favor of owner, mortgagee, and agent should be carried on all property managed by the agent.

(2) See that all premiums have been paid and that premium checks have cleared. Naturally see that the financial standing of the insurance companies is satisfactory.

(3) Check the names of the persons or corporations named as the assured in the policy to determine that all persons named as record owners or lessees in the deed or title are named in the policy. Also include the names of all other persons having any interest not of record, as for example the real owners where title is carried in the name of a straw party.

(Continued page 7, column 2)

The MORTGAGE BANKER

Published Semi-Monthly by the
MORTGAGE BANKERS
ASSOCIATION OF AMERICA
111 West Washington Street, Chicago

DEAN R. HILL.....President
FREDERICK P. CHAMP.....Vice President
GEORGE H. PATTERSON.....Secretary-Treasurer

The MORTGAGE BANKER is distributed free semi-monthly to members of the Mortgage Bankers Association of America. Publications may reproduce material appearing in the magazine only by permission of the Association. Opinions expressed in THE MORTGAGE BANKER are those of the authors or the persons quoted and are not necessarily those of the Association.

FEBRUARY 1, 1941

FHA CLAUSES

In a *Letter to Members* on December 20, 1940, George H. Dovenmuehle, Chairman of MBA's FHA Committee, called attention to the fact that FHA mortgagees had experienced some difficulty in obtaining insurance of their loans.

"This difficulty becomes exaggerated in the case of construction loans when the contractor or borrower, through neglect, fails to completely fulfill all of the specifications," he pointed out.

Certain FHA State Managers, the *Letter* said, had approved the printing of this clause in the mortgage form:

"The mortgagor further agrees that should this mortgage and the note secured hereby not be eligible for insurance under the National Housing Act within eight months from the date hereof (written statement of any officer or employee of the Federal Housing Administration dated subsequent to the eight months' time from the date of this mortgage, declining to insure said note and this mortgage, being deemed conclusive proof of such ineligibility) the mortgagee or the holder of the note may, at its option, declare all sums secured hereby immediately due and payable."

Mr. Dovenmuehle suggests that MBA members also consider the following clause which has been used in New York and other states with the approval of the FHA in Washington:

"That should the Mortgagee submit the Bond, executed simultaneously with this Mortgage, to the Federal Housing Administrator for endorsement for insurance and he for any reason refuse to endorse the same, the principal sum hereby secured shall be immediately due and payable."

MBA members can choose between these two clauses, Mr. Dovenmuehle suggests, and can go to their State Directors and secure permission to use it.

WHAT YOU SHOULD KNOW ABOUT FIRE INSURANCE

(Continued from page 6)

(4) Check the description of the property in the policy against the description in the title or deed. Not only should the house number be accurately stated but there should also be a full legal description of the lot or tract on which the house is located.

(5) Be sure that standard (not open) mortgage clauses are attached to cover each mortgage on the property as shown on the title. Policies providing for contribution or co-insurance should not be accepted without the consent of all interested parties. Notify the insurance company of any change of ownership or occupancy or increase of hazard. See that there are no chattel mortgages on the property. Check names of trustees or mortgagees or their assigns.

(6) Vacancy and repair permits, and coverage for more hazardous use, must be obtained when necessary, as well as removal permits for personal property.

(7) If a sale, lease or foreclosure of the property is contemplated, a binder should immediately be obtained, signed by the insurance agent, holding the proposed purchaser or lessee, and the trustee or mortgagee in any proposed deed

of trust or mortgage, covered, as well as the present owner, lessee, and trustee, or mortgagee. After the sale is concluded the policies should be assigned and mortgage clauses attached with the consent of the insurance company. An assignment of a mortgage where the mortgage clause is to the mortgagee, must be consented to by the insurance company.

(8) An adequate expiration and cancellation record should be maintained and new policies secured when necessary. Other insurance and over-insurance should be controlled.

(9) Error and omission insurance should be carried by the mortgage banker or mortgagee to provide protection against failure to properly insure or renew, and against defects in the form or coverage of the policies.

(10) It is suggested that mortgage bankers consult their fire insurance agents concerning any questions as to coverage of policies. Any commitment by the fire insurance agent should be in writing.

NEWSPAPERS YOUR BEST ADVERTISING MEDIUM

(Continued from page 4)

For our part, we have tried in a small way to furnish the papers from time to time with news about our business activities. During 1938, for example, which was the second year covered by the survey we have just discussed, 204 publicity items favorable to our firm appeared in the various Chicago papers.

I would like to make it clear that there are very few papers that openly combine publicity with advertising. Most of the large ones definitely do not. Throughout the country over a period of time, the size of any paper's real estate section is determined by the amount of revenue

the real estate pages bring in. You can't expect a newspaper, which after all is a commercial enterprise, to go on forever giving space and more space to an industry which is non-productive from its standpoint.

Therefore, if you want to see your local real estate sections maintained on a large-scale, which of course means that a lot more space will be available for news about your firm, I think you will agree that it's just plain, business sense to support those sections with advertisements which in themselves should be profitable to you.

"Far from constituting a general problem to the housing industry, the defense program will stimulate sound housing business and sound mortgage business in many areas. There already is such stimulation.

"Throughout most of the country private builders and private lenders are handling defense housing in their regular stride. The importance of this effort must not be underestimated, and we must not, in our thinking, get so absorbed in special situations as to let this big mass effort become handicapped in any way." —Earle S. Draper, Assistant FHA Administrator.

"Men will fight for their homes when they won't fight for a boarding-house." —Congressman Hatton W. Summers.

"The great dread of government competition has arisen to haunt investment bankers. Until the defense program got under way, government lending had bothered the investment bankers more in theory than in actuality. The competition had been mainly with the mortgage bankers." —Robert P. Vanderpoel, financial editor, *Chicago Herald-American*.

FHA, Appraising, Service Costs and Property Management Clinic Topics

February 14th and 15th in Chicago is going to look almost like convention week for mortgage bankers. Around 300 are expected for MBA's second 1941 Mortgage Clinic which will be under the direction of MBA Regional Vice President Charles A. Mullenix, president of The Cuyahoga Estates, Inc., of Cleveland. The MBA board of governors meets on Friday followed by the Clinic on Saturday.

The Clinic discussion is divided into five general classifications: **FHA** led by Harry A. Fischer, vice president, Mutual National Bank of Chicago; **Acquisition of New Business** led by C. A. Campbell, president, The Midland Mortgage Co. of Toledo; **Appraising** led by Charles H. Sill, executive vice president, Drennan & Sill, Inc., Detroit; **Service Costs** led by Hugo Porth, Ed Porth & Sons, Milwaukee; and **Property Management** led by Carlton Schultz, president, Carlton Schultz Investment Co. of Cleveland.

At the Philadelphia Clinic, **Property Management** is being conducted by

H. L. Rust, Jr., H. L. Rust & Co., Washington, D. C.; **Acquisition of New Business** by John C. Thompson, president, New Jersey Realty Company, Newark; **Appraising** by C. Arnel Nutter, president, Nutter Mortgage Service, Camden, N. J.; **FHA** by James W. Rouse, president, The Moss-Rouse Company, Baltimore; and **Service Costs** by W. A. Clarke, president, W. A. Mortgage Company, Philadelphia. Regional Vice President Guy T. O. Hollyday of Baltimore presided at the meeting.

More specifically, here are some of the questions that will be projected at the Chicago Clinic for a thorough airing:

What information does a loaning executive want from an appraisal report?

How should the appraiser approach the valuation of the high-grade house or estate, new or old?

What rate of capitalization should be used in appraising the value of unfurnished apartment buildings, theaters and store property in 80 percent to 100 percent locations?

Should the cost of obtaining new business be properly segregated from the cost of servicing?

What collateral services can be made by correspondents, individuals or institutions that can be made to pay (suggest appraisals, insurance, real estate management, sales, rentals, etc.)?

What is the most effective relationship between the property manager and tenants?

What are the highlights in the executive control of property management?

What is a proper charge for the management company's services?

Assuming that most mortgage bankers are dependent upon private residential building, what threat is there in the possible cessation of private building during rearmament or actual hostilities?

If solicitors are used on a salary basis, can they produce sufficient business so that it is not necessary to pay commissions to brokers?

In the acquisition of new business which of the following is the best source or method—solicitation, building permits and Dodge reports, newspaper advertising, telephone, direct mail advertising, contractors, realtors and mortgage bankers or present borrowers?



RALPH A. HUNT

Ralph A. Hunt, president, Chicago Mortgage Investment Company, was elected president of the Chicago MBA at the group's annual dinner meeting January 15th, succeeding Ferd Kramer of Draper and Kramer, Inc. L. A. Clarahan, Oak Park Trust and Savings Bank, was elected vice president, and Hugh Riddle, Riddle and Riddle, was elected secretary and treasurer. (See January Local Chapter News for more complete report.)



CHARLES H. SILL

Charles H. Sill, executive vice president, Drennan & Sill, Inc., of Detroit, was recently elected president of the Detroit MBA. At the first 1941 meeting members heard Ward Van Dusen speak on "Future of Detroit Real



NORMAN R. LLOYD

Estate for 1941 and After."

Norman R. Lloyd, president, Allied Mortgages, Inc. of Cleveland, is another new local Association head this year. He is president of the Cleveland MBA.

DO YOU WANT MORE . . . than one copy of each issue of The Mortgage Banker? We'll send two, three, four or any reasonable number for your staff if you'll request them.

